

Message Text

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ACTION EUR-25

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TAGS: EGEN, GR

SUBJECT: GOG COMMENTS ON ECONOMIC SITUATION

1. MINISTRY OF COORDINATION AND PLANNING RELEASED LONG AND DETAILED STATEMENT MAY 21 WHICH, BY SELECTIVE USE OF STATISTICAL INDICATORS, DEPICTS CURRENT ECONOMIC DEVELOPMENTS IN ROSY HUES. GENERAL THEME OF STATEMENT IS "THE STEADY REESTABLISHMENT OF THE EQUILIBRIUM OF THE NATIONAL ECONOMY."

2. FOLLOWING MAJOR AREAS TOUCHED UPON:

A. INFLATION. CITES RISE OF "ONLY 5.8 PERCENT" IN CONSUMER PRICE INDEX DURING FIRST FOUR MONTHS OF YEAR IN COMPARISON WITH DECEMBER, 1973, LEVEL. SLACKENING OF RATE OF INCREASE IN PRICES IS APPARENT FROM ALL PRICE INDICES. HOWEVER, FACT THAT AVERAGE CONSUMER PRICE INDEX FOR JANUARY-MARCH 1974 UP 33.5 PERCENT OVER AVERAGE FOR SAME PERIOD IN 1973 DOES NOT ENTIRELY SUPPORT GOVERNMENT ASSERTION THAT "UPWARD TREND OF PRICES HAS BEEN CHECKED."

B. MONEY SUPPLY. STATEMENT EMPHASIZES THAT CURRENCY IN
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CIRCULATION "HAS BEEN CONSIDERABLY CURTAILED." MOST RECENT DATA

AVAILABLE TO EMBASSY SHOWS 20.5 PERCENT RISE IN MONEY SUPPLY DURING MARCH 1973-1974, BUT IT IS TRUE THAT CONSIDERABLE PROGRESS HAS BEEN MADE IN LAST SIX MONTHS. ONE PRICE OF EFFORT HAS BEEN VERY RESTRICTIVE CREDIT POLICY WHICH HAS HAD SOME NEGATIVE IMPACT ON LOCAL BUSINESS. JUDGING FROM UNOFFICIAL SOURCES (POST-FEB OFFICIAL STATISTICS NOT YET AVAILABLE), CLAIM THAT PRIVATE BANK DEPOSITS ON THE RISE PROBABLY TRUE AS RESULT OF TWO UNIT INCREASE IN RATES FROM FEBRUARY 15. HOWEVER, LONGER TERM STATUS OF DEPOSITS WILL DEPEND ON BRINGING INFLATION SATISFACTORILY UNDER CONTROL AND ON REVIVING CONFIDENCE IN THE DRACHMA.

C. IMPORTS. REPORT STATES RATE OF GROWTH OF IMPORTS LOSING IMPETUS, AND THIS DESPITE INCREASE IN GOVERNMENT IMPORTS OF COMMODITIES TO BUILD UP A REGULATORY STOCKPILE, AND INCREASED FUEL COSTS. HOWEVER, REPORT NEGLECTS TO ADD THAT IMPORTS FOR JANUARY-MARCH 1974 TOTALLED \$1,192 MILLION, 56 PERCENT ABOVE LEVEL FOR SAME PERIOD LAST YEAR (N.B. INCREASE FOR JANUARY - MARCH 1973 OVER JANUARY-MARCH 1972 43 PERCENT). CURRENT ACCOUNT DEFICIT FOR PERIOD UP 124 PERCENT TO \$521 MILLION.

D. INDUSTRIAL OUTPUT. INDICATES THAT MEASURES WILL SOON BE TAKEN "AIMED AT STRENGTHENING THE RATE OF GROWTH OF NATIONAL OUTPUT AND ESPECIALLY OF INDUSTRIAL OUTPUT." ALTHOUGH NATURE OF MEASURES NOT SPECIFIED SOME LOOSENING OF CREDIT RESTRICTIONS FOR PRODUCTIVE SECTORS SEEMS LIKELY IN NEAR FUTURE, AND POSSIBLY SOME LIBERALIZATION OF RESTRICTIONS ON CONSTRUCTION INDUSTRY.

3. COMMENT: OBJECTIVE OF SELF-CONGRATULATORY REPORT OBVIOUSLY TO BOLSTER CONFIDENCE IN THE ECONOMY IN GENERAL AND DRACHMA IN PARTICULAR. HOWEVER, IN ADDITION, "VICTORY STATEMENT" PROBABLY HERALDS SOME RETREAT FROM PRESENT AUSTERE FISCAL AND MONETARY POLICY. GOG AWARE THAT MANY LOCAL BUSINESSMEN AND ECONOMISTS HAVE BEEN EXPRESSING VIEW OF LATE, WITH SOME JUSTIFICATION, THAT CONTINUED IMPOSITION OF VERY TIGHT RESTRICTION ON CREDIT AND BUILDING INDUSTRY RISKS PUSHING ECONOMY OVER BRINK INTO SERIOUS RECESSION. IN ADDITION TO SOME LIBERALIZATION ON CREDIT AND CONSTRUCTION RESTRICTIONS, IT IS POSSIBLE THAT GOVERNMENT MAY CONSIDER GRADUALLY RELAXING EXTREME STRICTURES ON PUBLIC SPENDING.

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